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IMPLEMENTING AND COMMUNICATING CORPORATE SOCIAL RESPONSIBILITY: IMPLICATIONS OF FIRM SIZE AND ORGANIZATIONAL COST

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ABSTRACT

In this paper we address two research gaps in the extant Corporate Social Responsibility (CSR) literature. The first gap results from a lack of understanding of different patterns of CSR engagement with respect to CSR communication and implementation. The second gap concerns limited knowledge about the influence of firm size on CSR engagement. We develop new theory by looking at variations in implementation and communication costs depending on firm size. This allows us to explain the *large firm implementation gap* (large firms are relatively strong in communicating CSR but weaker at implementing it into their structures and practices) and vice versa the *small firm communication gap* (weak communication and strong implementation). Our model expands a new theory of CSR engagement based on as yet underemphasized firm-level antecedents of CSR, and opens up several new avenues for future and in particular comparative research.

KEYWORDS

Communication; Corporate Social Responsibility (CSR); Firm Size; Implementation; Organizational Costs

IMPLEMENTING AND COMMUNICATING CORPORATE SOCIAL RESPONSIBILITY: IMPLICATIONS OF FIRM SIZE AND ORGANIZATIONAL COST

The corporate social responsibility (CSR) field, in both research and practice, continues to advance despite a range of inadequately understood and sometimes contradictory phenomena (de Bakker et al., 2005). Thus for example, observable increases in the sophistication of socially and environmentally responsible business initiatives occur concurrently with wave after wave of corporate scandals, media accusations of unethical behavior and green-washing. In this article we develop a more nuanced understanding of CSR engagement which seeks to explain some of these incongruities.

One of the key issues in the CSR debate is the distinction between, colloquially speaking, "talking" and "walking" social responsibility in a business context (Ramus & Montiel, 2005; Wagner, Lutz, & Weitz, 2009). We understand these elements collectively as *CSR engagement*, encompassing *CSR communication* (the external reports, claims and commitments to act socially responsibly projected at a wider public; e.g. Birth, Illia, Lurati, & Zamparini, 2008) and *CSR implementation* (internal actions, structures and procedures which embed CSR in organizational processes; e.g. Aguilera, Rupp, Williams, & Ganapathi, 2007). Channels of CSR communication might include a CSR report, corporate website, public relations, advertising or point of purchase information (Du, Bhattacharya, & Sen, 2010: 11). CSR implementation might include the establishment of supply chain monitoring schemes, employee safety training, environmental certifications or the inclusion of stakeholders in decision-making (e.g., Baumann-Pauly & Scherer, 2012). Increasingly, however, we see an acknowledgement of the limited claims that can be made on the basis of CSR communication about actual implementation. In an influential *Harvard Business Review* article Porter and

Kramer (2006: 80) propose that "the most common response has been neither strategic nor operational, but cosmetic". It could be argued that we are witnessing an "implementation turn" in CSR practice and research. Therein, the focus lies on investigating the presumed (mis)match between internal CSR implementation and external CSR communication (e.g., Lindgreen, Swaen, & Maon, 2009; Lyon & Maxwell, 2011).

The second important issue is the distinction between organizations of different size. Many studies on CSR do not sufficiently take into account size-related distinctions in how firms engage in CSR (e.g., Aguilera et al., 2007; Campbell, 2007; Scherer & Palazzo, 2007). The large firm perspective – which accounts for the vast majority of research and public attention – is implicitly and sometimes explicitly assumed to apply to all organizational types (see e.g., Mackey, Mackey & Barney, 2007). Refuting the appropriateness of this, however, is a growing number of studies on smaller firms (usually accounting for over 95% of business types in developed and developing economies alike; see Wymenga, Spanikova, Barker, Konings, & Canton, 2012)[i]. Small firms clearly show a difference in CSR engagement (Lepoutre & Heene, 2006), as they usually approach CSR based on informal responses and follow implicit behavioral guiding principles (Jenkins, 2004).

In bringing these two issues of the CSR debate together, our *research objective* is to theorize how the organizational implications of firm size can explain differences between implementing and communicating CSR. We believe that this lays the foundation for a new theoretical explanation of CSR engagement, and introduces several novel avenues for research. We start from the position that extant literature often assumes that larger firms such as multinational corporations (MNCs) are better positioned in implementing CSR (e.g., Elsayed, 2006; McWilliams & Siegel, 2001; Perrini, Russo, & Tencati, 2007; Udayasankar, 2008). However, studies that scrutinize the integration of CSR in corporate practices show that while many large firms display patterns of extensive public CSR communication (e.g., Birth et al., 2008; Castello & Lozano, 2011; Du et al., 2010), actual implementation lags behind (e.g., Baumann-Pauly, Wickert, Scherer & Spence, 2013; Christmann & Taylor, 2006; Lyon & Maxwell, 2011). Smaller firms, in contrast, are challenged by a lack of resources such as human- or financial capital and economies of scale, as well as low public expectations to engage in CSR (Lepoutre & Heene, 2006; Spence, 2007). From an external perspective, relatively little is known about CSR in small firms, as their activities are seldom published in lengthy sustainability reports, websites, or publicly visible commitments (Matten & Moon, 2008; Nielsen & Thomsen, 2009). A number of studies do however show that many small firms which engage in CSR do so by "silently" implementing a wide range of practices, structures, and procedures to uphold social and environmental responsibility in their core business operations and supply chains (e.g., Jorgensen & Knudsen, 2006; Murillo & Lozano, 2006; Pedersen, 2009; von Weltzien Høivik & Melé, 2009).

We suggest that these popularly observable differences in CSR engagement between smaller and larger firms apply for the majority of business firms, even though there may be deviations from the stylized case. Yet, the literature lacks a theoretical explanation for the large firms' tendency to be strong in communicating CSR and at the same time weak in implementing CSR, contrasted to the smaller firms' tendency to be strong in implementing CSR and weak in communicating CSR. We address these shortcomings by presenting an integrated model of size related antecedents of CSR at the firm level of analysis. In a nutshell, we propose that relative size dependent *organizational costs* – including the total money, time and other resources associated with CSR engagement – can explain the illustrated differences in the patterns of CSR engagement between smaller and larger firms. We propose that large firms have beneficial organizational characteristics that make *centrally* organized activities such as externally communicating CSR relatively less costly. In contrast, small firms have beneficial organizational characteristics that make *decentrally* organized activities such as internally implementing CSR relatively less costly, and vice versa.

The paper proceeds as follows: Departing from extant theories of CSR and the limitations of existing accounts to explain size-related differences in CSR engagement, we sketch three contributions of our study. Subsequently, we review the literature on firm size and organizational costs, which allows identifying size dependent organizational characteristics that influence the organizational costs for implementing versus communicating CSR. We present a new theory that helps explain the *large firm CSR implementation gap* and the *small firm CSR communication gap* in the patterns of CSR engagement. We end with a discussion of implications for theory as well as comparative and size-aware research on CSR.

CORPORATE SOCIAL RESPONSIBILITY ENGAGEMENT

Existing studies that seek to explain why firms engage in CSR can be classified into three broad, but not mutually exclusive motives (Aguilera et al., 2007; Basu & Palazzo, 2008). First, the economic perspective argues that CSR is driven by instrumental motives, and that firms engage in CSR because they attempt to obtain financial benefits or increase competitiveness (e.g., Husted & Salazar, 2006; Mackey et al., 2007; McWilliams, Siegel, & Wright, 2006). Second, the relational perspective argues that CSR is driven by external demands. For instance, firms respond to stakeholder expectations (Mitchell, Agle, & Wood, 1997), engage in activities that are considered socially acceptable or legitimate (Campbell, 2007), or follow trends that take place on the field level, such as increasing standardization of CSR (Haack, Schoeneborn, & Wickert, 2012). Also, CSR-related behavior has been explained by different socio-cultural influences (Matten & Moon, 2008) as well as by the nature of ownership of an organization (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). Third, the ethical perspective argues that CSR behavior can be explained by ethical considerations of individuals within an organization (Donaldson & Dunfee, 1994; Jones, 1991).

With regards to the firm size related differences in patterns of CSR engagement and the intensified critique of what is perceived as hypocritical firm behavior or decoupling of CSR communication from implementation, these explanations have three important limitations. First, existing studies tend to focus on explaining why firms *do* or *do not* engage in CSR in the first place. However, this underemphasizes differences in behavioral patterns of engagement such as either strong internal implementation or strong external communication (see critically: McWilliams & Siegel, 2001; Udayasankar, 2008). Consequently, it has been suggested that more attention should be given to explaining variation in different "degrees of CSR seriousness" (Aguilera et al., 2007: 855). We propose that "serious CSR" implies engagement. This means an integrated approach to internal implementation of CSR in practices, structures, and procedures on the one hand and external communication that corresponds to what is actually being done on the other (see Baumann-Pauly & Scherer, 2012). Second, existing literature remains incomplete in linking these differences to the influence of firm size, as most studies investigate CSR in small *or* large firms separately (for a recent notable exception analyzing size-related differences in stakeholder pressures and environmental responsibility, see Darnall, Henriques, & Sadorsky, 2010). Third, the literature's tendency to base explanations for CSR engagement on the presumed benefits of CSR, in particular increased financial performance (see Orlitzky, 2011), neglects the significance of the costs of CSR engagement. This view underemphasizes how size-specific organizational characteristics influence the relative costs of centralized (external CSR communication) versus decentralized administrative tasks (internal CSR implementation). However, engaging in CSR incurs tangible costs on business firms in the form of time, labor, and assets that are necessary to implement CSR in organizational practices as well as to communicate about activities. Even if a firm does not engage in CSR in either respect it may suffer costs in the form of loss of reputation.

Therefore, many business firms invest in the communication of their CSR policies by way of reports, brochures, or websites to create a positive image and to give the impression of meeting societal expectations. At the same time, however, they may try to avoid the costs of actual CSR implementation. In order to implement CSR within their organizational practices, structures, and procedures, companies are expected to rearrange their value chains (e.g. stop sourcing from factories with low working standards or child labor), change their product technologies or production processes (e.g. avoid toxic substances, employ green technologies), or spend resources on public policy issues (e.g. invest in public education, public health, or infrastructure) with potentially far reaching cost implications (Scherer, Palazzo, & Seidl, 2013). Our core argument is thus that conceptualizing the varying costs of CSR engagement is a more adequate means to explain differences in firm behavior, that not only acknowledges differences in firm size, but equally considers differences between communication and implementation of CSR.

In addressing these limitations, we contribute to the literature by developing a theoretical explanation for different firm size dependent patterns of CSR engagement. Our conceptualization is based on insights from classic studies of organizational form and the argument that firms have a range of organizational characteristics that are influenced significantly by their size. These characteristics include the levels of horizontal and vertical differentiation, formalization, and specialization, which increase as firm size increases (Kimberly, 1976), in addition to the degree of organizational identity consistency, which decreases as firm size increases (Kogut & Zander, 1996). In turn, these organizational characteristics influence the level of control that managers have over the organization (Downs, 1966; Williamson, 1967), and the resulting costs of internal coordination and communication

(Blau, 1970; Klatzsky, 1970). These organizational features imply different amounts of organizational costs for communicating or implementing CSR in small versus large firms. Firm-size dependent organizational costs of internal CSR implementation vs. external communication make the administration of one pattern relative to the other more or less favorable for a firm and thus may explain the observed stronger salience of that pattern in smaller vs. larger firms.

Our study makes three contributions to the CSR literature. *First,* we develop a cost-based model of firm-level antecedents of CSR that explains why larger firms tend to be stronger communicators of CSR, while smaller firms tend to be stronger implementers of CSR. As such, we expand the prevailing narrow perspective on CSR that overlooks important disparities between internal implementation and external communication. In light of increasing corporate scandals and allegations of corporate green-washing, this distinction is critical to develop more solid explanations of firm behavior. In particular, the cost-based antecedents of CSR engagement that we propose add to explanations that have analyzed decoupling in the realm of CSR, but have thus far focused on institutional determinants (Crilly, Zollo, & Hansen, 2012; Lim & Tsutsui, 2012). *Second*, we develop a theoretical basis for as yet underemphasized size-aware research in CSR at the organizational level of analysis that provides a comparative perspective between smaller and larger firms. This is an important direction for future research that seeks to better understand why small and large firms engage in CSR differently, while also acknowledging the contribution of small firms in tackling questions of social and environmental responsibility (Darnall et al., 2010; Russo & Perrini, 2010). *Third*, by connecting the broad literatures on organizational costs and CSR, we offer a novel perspective to explain variation in patterns of CSR outcomes (e.g., Aguinis & Glavas, 2012; Basu & Palazzo, 2008). Rather than looking at the assumed benefits or consequences of CSR as an independent variable, we will argue why an implementation and communication cost based analysis is well suited to examine varying forms of CSR engagement. Figure 1 provides an upfront overview of our causal argumentation.

Insert Figure 1 about here

FIRM SIZE AND ORGANIZATIONAL COSTS

The relationship between firm size, characteristics of organizational form and respective implications on organizational costs is well established (amongst others, see Blau, 1970; Child, 1973; Downs, 1966; Hsu, Marsh, & Mannari, 1983; Kimberly, 1976; Klatzsky, 1970; Pondy, 1969; Williamson, 1967). This debate has, however, as yet received little attention in the CSR literature. There is a strong consensus that firm size as one of many variables that define organizational characteristics, for instance technology, environment or ownership, is perhaps the most pervasive in terms of the number of suggested relationships with other organizational features (e.g., Child, 1973; Child & Mansfield, 1972; Hsu et al., 1983). Accordingly, other central structural attributes that characterize organizations are critically influenced by firm size. Nevertheless, "[i]f one is concerned with understanding the structural configuration of organizations, size alone, […], does not explain much of anything" (Kimberly, 1976: 590), but needs to be seen in relation to other factors, as we will illustrate below. More specifically, organizations have a number of central and what we call "primary" organizational characteristics. Particular significance is attributed to the extent of horizontal and vertical differentiation, specialization and formalization, in addition to the degree of identity consistency (Blau, 1970; Child, 1973; Hsu et al., 1983; Kimberly, 1976; Kogut & Zander, 1996).

1) *Horizontal differentiation* is the number of departments or sub-units that exist within a single organization (Blau, 1970). This includes the various “productive” and usually decentralized departments of a corporation like logistics, operations, production and sales, as well as centralized overhead functions like human resources, finance and accounting and also for instance a CSR department as is increasingly common in large MNCs. Large firms usually have complex organizational charts which depict extensive horizontal differentiation, while in small firms, a department may comprise a small number of employees, or a single employee may cover several functions.

2) *Vertical differentiation* is the number of ranks or levels of authority, in other words hierarchy, that exist within a single organization (Hsu et al., 1983). In large firms, there are naturally a high number of ranks, with the president or CEO being far removed from the lowest ranked employee. In smaller firms, there is often a flat hierarchy where owner-managers have a small physical as well as emotional distance from their employees and are subject to the influences and constraints of proximity (Jones, 1991). Thus many large firms have a CSR director located close to the board level in the headquarters but far away from productive departments. In small firms, social or environmental responsibility is often overseen by the owner-manager or directly administered by line managers, both being close to the actual production process (Fassin, 2008).

3) Functional *specialization* is defined as the extent to which administrative organizational functions are assigned as specialized duties to individuals (Child & Mansfield, 1972). In large firms, employees are generally very focused on their particular job function, such as being solely responsible for CSR reporting and external communication. Such specialized jobs tend to require a specific set of skills with limited overlap with administrative

functions responsible for implementing CSR-related practices (making moves between productive departments and a CSR department difficult). In smaller firms, individuals are more likely to be responsible for a broader and less specialized set of tasks, requiring them to multi-task, take on diverse roles, and respond to current imperatives as a matter of necessity (Heneman, Tansky, & Camp, 2000). However, this implies that in small firms people are more likely to have good knowledge about the overall set of tasks handled within the firm, including those related to CSR.

4) *Formalization* denotes the extent to which rules, procedures, instructions, and communications are made explicit and written down and the extent of their application to the execution of procedures and conveyance of information (Child & Mansfield, 1972; Hsu et al., 1983). In large firms, a very high number of procedures, i.e. the way certain activities should be handled, are formally recorded in bureaucratic documents, policies or manuals thereby passing on knowledge and expected practice (Kimberly, 1976). This includes directives on how to handle CSR-related issues, such as a human rights policy, compliance guidelines for fraud and bribery prevention, or standardized management schemes to ensure environmental protection. In smaller firms as we have noted, such knowledge tends to be more tacit and informal, i.e. it is conveyed to new employees through the organizational culture, by personal example and verbal communication as "the way things are done" in that firm (Thorpe, Holt, Macpherson, & Pittaway, 2005).

5) *Identity consistency* refers to an adherence to often unconscious and symbolic coding of values and rules, which ensures the consistent and informal handling of daily business processes by employees (Kogut & Zander, 1996). This shared identity establishes and facilitates the sharing of explicit and tacit rules of coordination within the firm (Ouchi, 1979). In small businesses with fewer employees, the organizational identity, that is, the perception of "who we are" as an organization is usually comprised of relatively homogenous

interests compared with larger firms. The presumably higher commitment to the organization's objectives in smaller firms reduces the need for costly internal surveillance and auditing, compared with larger firms.

We conclude from this brief review that primary organizational characteristics differ significantly depending on firm size: Horizontal differentiation, vertical differentiation and specialization and formalization tend to be higher the larger an organization is, while identity consistency tends to be higher in smaller organizations. These primary characteristics need to be administered by the organization, thus evoking what we call central "secondary" characteristics or administrative tasks, which imply different kinds of organizational costs for those tasks that are centrally organized – externally communicating CSR – versus those tasks that are decentrally organized – internally implementing CSR.

The literature suggests that increasing firm size is associated with increases in problems in particular of *control, coordination* and *communication* (Blau, 1970; Downs, 1966; Kimberly, 1976; Klatzsky, 1970). These features influence the magnitude of the administrative component of an organization and the span of control of managers or supervisors. Correspondingly, increases in complexity or differentiation exacerbate the severity of adequate administration in the form of control and coordination as well as higher costs for internally communicating the CSR agenda to employees. In general, larger and more highly differentiated organizations have a relatively larger administrative component than smaller firms (Kimberly, 1976). Table 1 summarizes the cost implications of the primary and secondary organizational characteristics of small and large firms.

Insert Table 1 about here

In the following, we outline the cost implications of the key administrative tasks, control, coordination and communication, in relation to firm size. This allows to show how these tasks have different organizational costs for CSR engagement, in terms of implementing and communicating CSR, in small and large firms respectively.

CONTROL AND CSR ENGAGEMENT

According to the "Law of Diminishing Control", the larger an organization becomes, the weaker the control those at the top have over its actions (Downs, 1966: 109). Thus, to influence what people far away from the headquarters practice becomes increasingly difficult. Administrative tasks that are centrally organized, in other words managed by or close to the headquarters of a large organization like the development of a CSR strategy by the CSR department, need to trickle down in the organization to decentralized divisions where the actual production or value creation processes take place (Blau, 1970). This includes the firm's own sites and is increasingly expected to also reach out to a firm's suppliers' sites (Scherer & Palazzo, 2011). Pfeffer (1978: 37) argued that in large and usually highly diversified businesses, due to their sheer magnitude of functionally different and very specialized jobs, "few participants are constantly involved or care about every dimension of the organization's operations". Furthermore, the naturally limited oversight capacity of managers at the top of organizations implies that increasing size will inevitably lead to a loss of control over departments or sub-divisions (Simon, 1997; Williamson, 1967). In what has been described as the "rumor-transmission-process" (Bartlett, 1932), information that is transmitted across successive hierarchical levels becomes distorted the more often it is reproduced.

This loss in information quality and consistency needs to be compensated by costly control devices such as supervision, redundancy, reorganization, or overlapping areas of responsibility. For CSR departments in larger firms, it is thus relatively costly to apply control devices that help to ensure that the CSR-related policies and guidelines are understood and implemented in organizational practices by the functional departments of the organization. For example, large firms are increasingly pressured by civil society actors to extend their CSR activities not only to subsidiaries in different countries but also to their supply chains (Scherer & Palazzo, 2007; Spence & Bourlakis, 2009). Controlling the implementation of CSR standards to which the firm has publicly committed, however, is very costly given that large firms usually have several thousand suppliers across the globe and often switch suppliers depending on price (see Kostova & Roth, 2002). As a result, such costly control processes invariably result in diminishing returns and thus evoke increasing cost of administration the larger an organization becomes. Ouchi (1979) adds that control modes which heavily depend on explicit and formalized monitoring, evaluating, and correcting – practices that are common in many large firms – are more "likely to offend people's sense of autonomy […] and will probably result in an unenthusiastic, purely compliant response". In the context of CSR, achieving compliance with existing laws or social norms is however often problematic, and instead a proactive and forward-looking stance of the involved employees is required.

In contrast, for the usually owner-managed smaller firms, Pondy (1969) suggests that it is more likely that owner-managers are unwilling to dilute their personal discretionary power and control over the organization and refrain from adding layers of hierarchy or administration. This makes control over the different tasks handled by a small firm relatively less costly. For instance, a small firm owner-manager who is committed to CSR would most likely take the personal responsibility for implementation. In addition, smaller firms have less difficulty controlling conformity to expected socially responsible behavior among their employees with which the owner-manager usually has personal and long-term relationships based on mutual reliance and trust (Spence, 2004; Spence, Schmidpeter, & Habisch, 2003). Putnam (1993) for instance suggests that high levels of trust diminish the probability of opportunism and reduce the need for costly monitoring processes.

Whether implementing CSR really pays, leading to increased share prices remains unclear. In other words, there is no consensus in the literature about a clearly positive relationship between CSR implementation and financial performance (Orlitzky, 2011; Peloza, 2009; Peloza & Shang, 2011). However, comprehensively implementing CSR in the organizational processes of large firms involves formulating policies and procedures, providing specific CSR training to several thousand employees, and ensuring the consistent application of CSR standards at all organizational levels and divisions (Baumann-Pauly & Scherer, 2012). This corresponds to McWilliams and Siegel's (2001) argument that economies of scope accrue in the joint provision of CSR attributes over many different products. In other words, large and highly diversified firms can generate cost savings if their CSR communication is attributed to a high number of products or services. For example, "the goodwill generated from firm-level CSR-related advertising can be leveraged across a variety of the firm's brands" (McWilliams & Siegel, 2001: 123), implying lower average costs for CSR communication for larger firms. In contrast, in order to implement CSR in large firms, a very high number of operational practices and procedures would have to be adjusted. Given that large firms are usually more diversified than small firms (see McWilliams & Siegel, 2001), CSR-related practices such as environmentally friendly product ingredients would also have to be adapted to specific requirements that are more complex the larger product portfolios become, implying additional implementation costs.

Similarly, as business firms are increasingly expected to conform to stakeholder expectations, the development of stable stakeholder relations where joint norms, values and strategies need to be discursively exchanged is challenging and costly for large firms. Firms with global supply chains and production networks are simultaneously facing legitimate and diverging stakeholder interests at a global level, both internally, e.g. their employees in subsidiaries, and externally, e.g. the communities in which they operate. In addition to these organizational challenges, a history of negative experiences with external stakeholders paired with the self-confident image portrayed by large firms often represents a major obstacle for the systematic integration of external stakeholders' concerns in the implementation process of CSR (Baumann-Pauly & Scherer, 2012). Additionally, non-governmental organizations often focus on high impact and well-known brand names of large firms that attract public attention (Doh & Guay, 2006). In order to change the "naming and shaming" game and constructively cooperate with these critical stakeholders, trust needs to be restored by cost-intensive stakeholder dialogues or other exchange platforms. In contrast, for small firms that also increasingly possess global supply chains, their number of stakeholders is usually limited to a few key parties. For instance, small firms often keep the number of their suppliers low, and they are selected based on long-term relationships characterized by honesty and mutual trust, avoiding expensive switching and screening costs (Pedersen, 2009; Spence, 2007). In sum, we conclude that decentralized control practices and procedures, such as CSR implementation, are relatively costly for large firms, and relatively less costly for smaller firms.

COORDINATION, INTERNAL COMMUNICATION AND CSR ENGAGEMENT

As large size implies increasing administrative overhead, it hence also increases the costs of internally coordinating and communicating the different activities of a firm, not only the internal implementation of CSR, but also ensuring consistency between implementation and external communication. Once specialized departments have been established, the cost of administrative overhead decreases with organizational size, thanks to economies of scale in administration. Blau (1970) has in this regard suggested a U-shaped cost-curve of administration, while others have argued for a curvilinear expansion of coordination costs – the percentage of administrative staff increases with size up to a given point, and then stabilizes (Klatzsky, 1970). Nevertheless, complexity and organizational differentiation also lead to increases in administrative coordination costs, which particularly apply to contemporary multinational large firms that operate across countries and cultures. Becker and Murphy (1992) elaborate further on the role of coordination cost and argue that the costs of coordinating specialized workers, as well as the amount of knowledge that is necessary for the production process to work efficiently, are critically influenced by the degree of specialization of an organization. Thus, these costs are higher in larger, more functionally specialized firms. Specialization is said to increase until the higher productivity from a greater division of labor is balanced by the additional marginal costs of coordinating a larger number of more specialized workers (Becker and Murphy, 1992). Nevertheless, the larger an organization is, the larger the number of people that would remain inactive during some part of the production period, and the larger would be the indirect coordination costs (Camancho, 1991).

Coordination and communication costs, however, are lower if the organization has a highly uniform identity or has a high goal consistency, as there is a lower need to control for behavior that might deviate from central organizational objectives (Williamson, 1967). A sense of community or "family" – a commonly accurate description or metaphor for many small firms given the prevalence of family businesses and frequency of personal interactions between senior- and middle management as well as line-employees – can facilitate coordination and mutual understanding (Thorpe et al., 2005). Thus coordination and communication costs are less for small firms than for large organizations with greater degrees of individual specialization and highly inconsistent goals across the organization.

There is also an issue around shared language. Ouchi (1979) suggests that in many large corporations, departments tend to develop their own particular jargon that is suited to the specific task needs of that department. This helps to balance the limited information-carrying capacity of an organization. At the same time, highly specialized and functional language increases the communication barriers in large organizations for instance if function-specific jargon used by the CSR-department (perhaps including terminology such as citizenship, integrity, trust, stakeholders, stakeholder dialogue, sustainability, ethics) is to be transmitted and translated meaningfully throughout the organization. Firms with strong corporate cultures or firms that put an emphasis on identity building may be able to offset some of the coordination costs that accrue when rolling out a CSR program. In general, however, internal communication becomes increasingly complex and costly to administer the larger the organization is.

In small firms, the typically informal communication style, fewer hierarchical levels and low levels of bureaucracy most likely keep the internal coordination and communication costs for implementing CSR in organizational processes relatively lower than in larger firms. Blau (1970) for instance argued that social contacts and interaction with persons outside one’s own direct specialization, i.e. a functional department, are more common in smaller organizations, where such departments might not formally exist. Social or environmental concerns that emerge from productive activities may therefore be more directly conveyed from owner-managers to employees, and vice versa, making it “easier for the concerns of ordinary workers to be heard” (Darnall et al., 2010: 1077).

In contrast, in large firms, managers at the top of an organization, i.e. those that are usually responsible for developing policies such as a CSR agenda, must reach out and literally "persuade" a myriad of employees in functional positions that may have highly divergent interests in relation to the organization's overall objectives. Thus, as opposed to external communication to stakeholders, internally communicating the components of a CSR program to raise awareness, in particular information about the nature of the adequate "responsible" organizational practices, structures, and procedures from the top to the bottom of an organization becomes increasingly costly the larger an organization is.

Evidence of the relatively strong development of external communication of CSR in large firms supports our argument (Gamerschlag, Möller, & Verbeeten, 2011). Given the higher visibility of most large firms and the increasing pressure of external stakeholders to make their CSR engagement more transparent, the improvement of CSR reporting has become a priority for many large firms (Castello & Lozano, 2011; Du et al., 2010). Indeed, empirical results show that voluntary CSR reporting decreases the cost of equity capital for publicly traded firms that are under greater media and investor scrutiny (Dhaliwal, Li, Tsang, & Yang, 2011; Reverte, 2012). Large firms, however, can relatively easily construct a CSR-façade by establishing a CSR department that handles PR-requests and is responsible for formally reporting CSR activities in a representative manner. For instance, many large firms promote their participation in the United Nations Global Compact or they align their reporting to sophisticated international guidelines such as the Global Reporting Initiative (GRI). Assuming that the establishment of a CSR department involves some initial cost and human resources but then remains relatively constant, its proportionate size and relative cost declines the larger a firm becomes.

For smaller firms, in contrast, externally communicating their CSR engagement to the public by following formal guidelines or standards is relatively costly. However, given the small number of employees and flat hierarchies, information can more easily be shared and discussed in informal settings across the organization. Because of close moral proximity, the influence of the leader(s) is probably still more significant in small firms than in large firms, meaning that employees can directly interact with CSR role models, such as owner-managers (Courrent & Gundolf, 2009). Often, small-firm owner-managers choose to implement responsible business practices out of conviction and at their own discretion (Jenkins, 2004). They tend to emphasize so-called “socio-emotional wealth”, rather than material wealth – in contrast to profit-maximizing large firms that are under greater shareholder pressure (Berrone et al., 2010). In general, owner-managed family-owned firms that are usually smaller in size tend to face lower pressure from investors to maximize their returns, giving them more legitimacy to devote resources to socially responsible business practices (Quinn, 1997). Assuming such an intrinsic motivation to engage in CSR, a mismatch between CSR activity and stated intent seems much less likely in particular among owner-managed small firms than for public large firms.

In terms of externally communicating CSR, unlike larger firms, smaller firms tend to employ informal, personalized mechanisms. As such, interaction with a selected group of stakeholders is done on the basis of face-to-face interaction rather than formal written accounts such as annual CSR reports (Spence, 2004). More appropriate for the smaller firm is what has been called a “socializing” process of accountability (Roberts, 2001). Therein, CSR activities are accounted for by day-to-day interaction, lateral exchange and two-way communication with suppliers, employees or customers, and are characterized by a high moral intensity (Courrent & Gundolf, 2009). This offers small firms the opportunity for a full reciprocal discussion and development of embedded personal recognition and identity (Spence, 2004). In larger firms, stakeholder communication and accountability is more likely a one-way communication of written reports published by a large firm and then sent to interested parties, without directly addressing them personally (Roberts, 2001). We suggest that the small firm socializing forms of accountability make a gap between CSR communication and corresponding organizational implementation less likely. Furthermore, as the majority of smaller firms are not publicly listed, the common lack of requirements to compile standardized financial reports means that the systems and processes of external communication are largely unfamiliar.

Meeting the increasingly demanding formal reporting requirements for CSR, such as structuring a report along the extensive GRI performance indicators, appears to be more complicated for many smaller firms (GRI, 2011). Commonly expected quality standards for CSR reports have expanded, and for smaller firms a relatively high and even prohibitive share of resources is required to draft a “high-gloss” report, a website, or to pay membership fees of a CSR initiative such as the United Nations Global Compact (see Fassin, 2008). In addition, due to their low visibility and the absence of media attention, and thus limited readership, it is unlikely that small firms would see a significant benefit in a publicity-driven approach to CSR, in contrast to most large firms. Thus, the motivation to direct financial and human resources in costly but largely unnoticed reporting is comparably limited.

Furthermore, given the earlier discussion on intrinsic motivation of owner-managed smaller firms to implement CSR, there is unlikely to be a desire for replacing authentic CSR implementation with what may be perceived as a de-personalized branding exercise (Nielsen & Thomsen, 2009). Importantly, engaging with external stakeholders by working in more (formal or informal) partnerships and including them in decision-making processes about the adequate implementation of CSR issues is a relatively common practice for smaller firms (Spence, 2007). In general, smaller firms tend not to have the resources to continuously generate knowledge about the increasingly complex issue of CSR and therefore need input and guidance from external stakeholders to manage such processes (Spence et al., 2003). Given the much lower public visibility of small firms in contrast to well known large firms, in particular MNCs, the former tend to be less exposed to NGO criticism and accordingly, the

CSR implementation strategy of small firms is typically a cooperative one in which they draw on their social capital (Russo & Perrini, 2010).

Our understanding of the differences in CSR communication in small and large firms also corresponds with recent research on the influence of CSR on corporate image attractiveness, company-stakeholder identification, and organizational performance and the moderating effects of firm size, industry type, and marketing budgets (Arendt & Brettel, 2010). It is argued that large firms focus on image building marketing activities and dedicate their budgets to external communication. In contrast, smaller firms, in particular in service intensive industries, focus on strengthening relationships with their most important stakeholders (Spence et al., 2003), such as employees, suppliers or key customers, thus focusing their CSR communication on selected parties.

A NEW THEORY OF CSR ENGAGEMENT

Based on our foregoing theoretical argumentation, we conclude that firm size dependent organizational characteristics imply favorable or unfavorable cost implications for externally communicating versus internally implementing CSR. This can explain why small firms tend to exhibit a high scope of implementation and a low scope of communication while large firms tend to exhibit a high scope of communication and a low scope of implementation. We coin these patterns the *small firm CSR communication gap*, and the *large firm CSR implementation gap*. Larger firms have a CSR implementation gap, because internal implementation of CSR practices and procedures into core business operations is relatively *costly* in comparison to relatively *less costly* external public communication of CSR. In contrast, smaller firms have a CSR communication gap, because external public communication of CSR is relatively *costly* in comparison to relatively *less costly* internal implementation of CSR practices and procedures into core business operations.

Figure 2 schematically illustrates our key arguments. In a simplified manner, the horizontal axis depicts the continuum of increasing firm size, where smaller firms are located on the left, and larger firms further right on the axis. The vertical axis depicts the relative organizational costs of the engagement in CSR defined as the relative share in total firm costs of either external CSR communication or internal CSR implementation. Notably, CSR communication costs can be best characterized as implying predominantly fixed costs whose relative share in total costs declines with growing firm size (see McWilliams & Siegel, 2001). More specifically, this includes fixed expenses such as human and financial resources for establishing a CSR department, for publishing a report or crafting policy documents, which increases the overall cost but then remains relatively constant. In contrast, CSR implementation would predominantly imply variable costs, as practices and procedures would have to be individually adjusted. Thus, while the share of fixed costs for CSR communication would decrease the larger the firm becomes, variable costs for CSR implementation that are tied to the number and scope of processes which need to be changed would increase the larger the firm becomes. For instance, a large firm needs to provide training about CSR to more employees and spend more resources to monitor diversified and geographically distant divisions, or it might have to pay higher material costs per unit if sourcing from suppliers that have an environmental or social certification (see McWilliams & Siegel, 2001). Variable costs also apply for CSR implementation in smaller firms. However, the relatively lower costs for control and internal communication and coordination make the administration of CSR implementation more favorable for small firms compared to less favorable CSR communication. In the graph, the space between the two curves (black/dotted) indicates the cost-differentials for the *small firm communication gap* and the *large firm implementation* *gap*, respectively. Notably, in seeking to visualize our theoretical arguments, this simplified model does not suggest a specific scale. However, as the graph shows, we argue that the small firm gap is most likely lesser than the large firm gap. This is because the "delta", i.e. difference between the relative small firm costs for implementation vs. communication of CSR, is comparably lower than the delta for large firms, for which CSR implementation is significantly more costly than CSR communication.

Insert Figure 2 about here

Opportunities for empirical research arise in exploring how these conceptual gaps could be measured, and to investigate under which conditions the small firm communication gap is likely of smaller scope than the large firm implementation gap; or if very small or micro and very large organizations have a respectively larger gap. In the following, we outline several implications that extend our theoretical understanding of size-related differences in CSR engagement as well as implications for future research.

THEORETICAL IMPLICATIONS

The theoretical implications of our model are an attempt to merge the two key issues in the CSR debate that we have sketched above: Observable differences between implementation vs. communication of CSR and small vs. large firms. We have argued that smaller firms possess beneficial organizational characteristics to implement CSR practices in functional activities, because costs for control, coordination and internal communication are relatively low compared to larger firms. At the same time, we have shown that extensive communication and reporting is less attractive for smaller firms due to higher relative costs as well as lower public pressure. The situation, however, differs significantly for larger firms. They have beneficial organizational characteristics that make centralized activities such as communicating about CSR activities less costly. Economies of scale in centralized administrative overhead functions, including CSR communication, make it relatively cheap for large firms to provide extensive commitments and reporting on CSR. In turn, due to higher implementation costs (high control, coordination and internal communication), large firms may be inclined to decouple CSR communication from functional activities and concrete organizational practices integrated in the core business processes of the organization. This aspect seems especially pertinent considering that a link between increased CSR engagement and financial performance, such as higher share prices, remains unclear (Orlitzky, 2011; Peloza, 2009; Peloza & Shang, 2011), while at the same time large firms face increasing societal pressures, for instance by consumers, to appear socially responsible (Wagner et al., 2009).

Large firms therefore have an incentive to engage in relatively inexpensive symbolic or “ceremonial” (Meyer & Rowan, 1977) implementation of CSR practices in order to communicate a responsible image to external stakeholders through their reporting function and to enhance reputation or attractiveness for investors. In the context of CSR, this behavior has often been called “window dressing” (Weaver, Treviño, & Cochran, 1999: 539) or green-washing (Laufer, 2003), while scholars of political economy have referred to “organized hypocrisy” (see Lim & Tsutsui, 2012). Lyon and Maxwell (2011) for example highlight how some MNCs conduct symbolic activities to signal their commitments to philanthropy and environmentalism and direct stakeholder attention to these activities in order to avoid social penalties. The authors illustrate how the oil giant BP has attempted to divert attention from its environmentally harmful deep water exploration activities towards the company's relatively marginal investments in renewable energy. More generally, it has been widely argued that external appearance rather than the fact of conformity between appearance and internal practices is often presumed to be sufficient for the attainment of a socially responsible image (see e.g., Lim & Tsutsui, 2012; Oliver, 1991). This makes it even more financially attractive to engage in inexpensive CSR communication, rather than expensive CSR implementation.

The large firm implementation gap can thus be seen as a form of decoupling (Meyer & Rowan, 1977; Boxenbaum & Jonsson, 2008), where symbolic communication about the implementation of CSR-related organizational practices does not correspond with the actual implementation of these practices. In this sense, our theoretical model introduces an important novel perspective to better understand potential organizational level antecedents of decoupling, where different conditions of decoupling between smaller and larger firms have not as yet been sufficiently developed. While institutional perspectives for instance emphasize field-level determinants for decoupling (e.g., Crilly et al., 2012; Kostova & Roth, 2002; Lim & Tsutsui, 2012), a consideration of organizational costs can help us clarify the potentially significant influence of firm-specific, and in particular cost-related factors that might also influence and explain why organizations engage in different degrees of decoupling CSR implementation from CSR communication. This also provides an explanation for earlier work that has argued that building an external appearance of social responsibility without corresponding internal organizational practices should be relatively inexpensive (Christmann & Taylor, 2006; Pratt & Foremann, 2000).

Our perspective on the relative organizational cost of implementing and communicating CSR also marks a new theoretical perspective for CSR research in relation to small firms. Previously, differences in CSR engagement of small firms predominantly referred to the lack of a profit-maximizing motive where owner-managers have the autonomy not to maximize shareholder value (e.g. Quinn, 1997; Jenkins, 2004), but discretion to direct resources to socially or environmentally responsible business practices (Berrone et al., 2010). It has been argued that small firm owner-managers are not driven by profit maximization, but instead by profit-satisficing behavior, along with a range of personal, social and cultural motivations (Spence & Rutherfoord, 2001). Hence, researchers and policy-makers seeking to promote CSR by focussing on potential profit rewards are ill-judged. Our model suggests that rather than linking CSR to profitability, a focus on the link to organizational costs could have greater resonance for explaining CSR engagement in small firms.

In general, we do not assume that our approach is exhaustive in explaining different CSR patterns. Rather, it presents an important and yet underemphasized complement to the extant picture that includes field-level (e.g., industry, country), and individual level (e.g., ethical motivation, managerial sensemaking), with organizational level – such as organizational cost – factors to illuminating variation in CSR engagement. Accordingly, we suggest as an important implication for future research that taking cost implications more explicitly into account seems more effective than focusing on profit-based explanations of CSR engagement. Having illustrated the considerable differences between smaller and larger firms, our theoretical model opens up several opportunities for future size aware and comparative research in CSR.

RESEARCH IMPLICATIONS

We have presented a theoretical model to understand how organizational costs for internally implementing versus externally communicating CSR can explain differences between small and large firms. This model helps better understand and explain the empirical evidence that suggests a small firm communication gap and a large firm implementation gap. Our study thus marks an important starting point towards the further development of theory that can explain variation in CSR engagement and sheds light on size-specific and cost-related antecedents that lead to different forms of CSR.

Our model is based on a *static* perspective of organizational costs leading to the respective communication versus implementation gaps. We therefore consider an important opportunity for future and in particular qualitative case-based research to investigate implications of a *dynamic* perspective. We suggest two aspects to be particularly relevant: *First*, what happens if a firm grows? Would a small firm, characterized by a communication gap, lessen this gap over time, with or without transforming it into an implementation gap as the firm grows? In other words, would existing internal implementation of CSR practices remain unchanged or would increasing organizational costs lead to an abandonment of existing practices, in favor of more comprehensive communication that might arguably correspond with implementation? A path dependency perspective (e.g., Sydow, Schreyögg, & Koch, 2009) represents an interesting starting point for further inquiry, as it would suggest that existing patterns, for instance strong implementation, would be less likely to change over time, compared to activities that are new to the firm, e.g. communication. Future research should address the question of what happens if costs grow (or decrease), for communication as well as implementation. For instance, smaller firms might face higher communication requirements when supplying large firms that expect formal reporting standards about the small firm's CSR activities, while learning effects may reduce costs in either small or large firms over time. Moreover, probable patterns of CSR engagement in micro- and medium-sized firms remain quite under-researched, i.e. those firms which can be neither characterized with small firm nor large firm organizational characteristics or that represent both characteristics of small and large firms to varying degrees. With this in mind, we deem it important to approach the question of whether there is an "optimal" organizational size that makes it least likely for a firm to have neither a CSR implementation nor a CSR communication gap, given that both large firms "walking the talk" and small firms "talking the walk" is a socially desirable outcome.

Second, is an implementation or communication gap sustainable over time? A firm that maintains a considerable implementation gap over a longer period might be more vulnerable to public criticism and be accused of an unsubstantiated façade of CSR that undermines credibility with internal and external stakeholders of the organization. Employees might feel deceived by their employer when working for an apparently socially responsible firm that in reality is not. In such cases, decoupled CSR communication may provoke corrective action that could lead to full implementation of corresponding practices simply because most employees would refuse to see themselves as only "ceremonial props" (Boxenbaum & Jonsson, 2008: 88). Studies have emphasized the idea of "self-entrapment" (e.g., Haack et al., 2012) that was initially put forward in the political sciences (see Risse, 1999). Scholars have argued that when firms make continuous aspirational commitments about CSR and communicate them, over time they effectively may talk their CSR communication into existence in terms of actual implementation (Christensen, Morsing, & Thyssen, 2013). In addition, external stakeholders such as NGOs might even be more inclined to start campaigning against a firm which they judge as particularly hypocritical, i.e. the higher the publicly perceived implementation gap, the more likely it is for that organization to become the target of boycotts or campaigns, and the higher the cost of not implementing CSR.

Research based on CSR-related organizational costs should therefore take into account the opportunity cost of *not* engaging in CSR communication or implementation. For large firms with an extensive implementation gap, this might result in high ex-post costs, for instance to repair reputation caused by consumer boycotts or negative NGO-led campaigns.

The respective cost implications, however, remain quite unclear. For smaller firms, there might be opportunity costs for not engaging in communication, if for instance large international buyers that increasingly require some sort of CSR standards from their suppliers might not award contracts or even de-list small firms that resist formally communicating their CSR activities.

LIMITATIONS AND CONCLUSION

We acknowledge some limitations to our conceptual model. A critique of our explanation for the suggested differences in CSR implementation and communication between small and large firms is the existence of deviant cases. There are, of course, large firms that issue comprehensive CSR reports and over time have substantially implemented CSR in their organizational processes and procedures (Baumann-Pauly & Scherer, 2012; Spence & Bourlakis, 2009).

Likewise, some small firms have not only implemented procedures, but also communicate to the public about their CSR activities (Nielsen & Thomsen, 2009). It should be noted that small firms are not a homogenous group, and may not all fit the standard form we have presented here. Some small firms may neither be familiar with the CSR concept nor have considered how to integrate CSR into core business routines despite their favorable organizational conditions (Murillo & Lozano, 2006). They may deny any sort of social responsibility particularly if operating in the informal economy prior to establishing a viable business. Furthermore, for reasons of parsimony, we only compared smaller firms relative to larger firms and in doing so assumed a size differential of for instance 250 employees versus 10,000, and did not further distinguish micro, medium-sized, or very large firms, as mentioned earlier.

Also, we excluded the potential influence of differing industrial sectors and cultural or economic environments in our analysis (see Matten & Moon, 2008). These limitations need to be taken into account when seeking to make our theoretical framework more robust and when empirically addressing the open questions we have raised. Nevertheless, we suggest that the considerable evidence we have sketched to support our theoretical arguments points to these highly representative patterns of CSR engagement and applies to the majority of small and large firms.

Overall, the model that we have sketched in this study seeks to contribute to size-aware and comparative research in CSR. A focus on organizational costs, rather than benefits, for implementing versus communicating CSR provides a new and potentially more robust dimension for further exploring variation in how firms engage in CSR.

ENDNOTES

[1] In this study, we do not differentiate between the popular notions of SME (small- and medium-sized enterprise; a company with fewer than 250 employees) versus MNC (multinational corporation with several thousand employees and global operations). Instead, smaller vs. larger firms are the two opposing or extreme poles and different size, in number of employees, of one organization is seen as relative to the size of another organization (see Kimberly, 1976).

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TABLES

TABLE 1

Summary of primary and secondary organizational characteristics and cost implications

Primary Organizational Characteristics / Firm Size	**Smaller Firm**	**Larger Firm**
Horizontal Differentiation	*low*	*high*
Vertical Differentiation	*low*	*high*
Specialization	*low*	*high*
Formalization	*low*	*high*
Identity Consistency	*high*	*low*
Secondary Characteristics / Firm Size	**Smaller Firm Costs**	**Larger Firm Costs**
Control Costs	*low*	*high*
Coordination Costs	*low*	*high*
Communication Costs	*low*	*high*

FIGURES

FIGURE 1

Firm size and CSR engagement. Note: Thick arrows indicate relatively extensive communication (large firms)/implementation (small firms); thin arrows indicate relatively little communication (small firms)/implementation (large firms) of CSR. Source: Own illustration

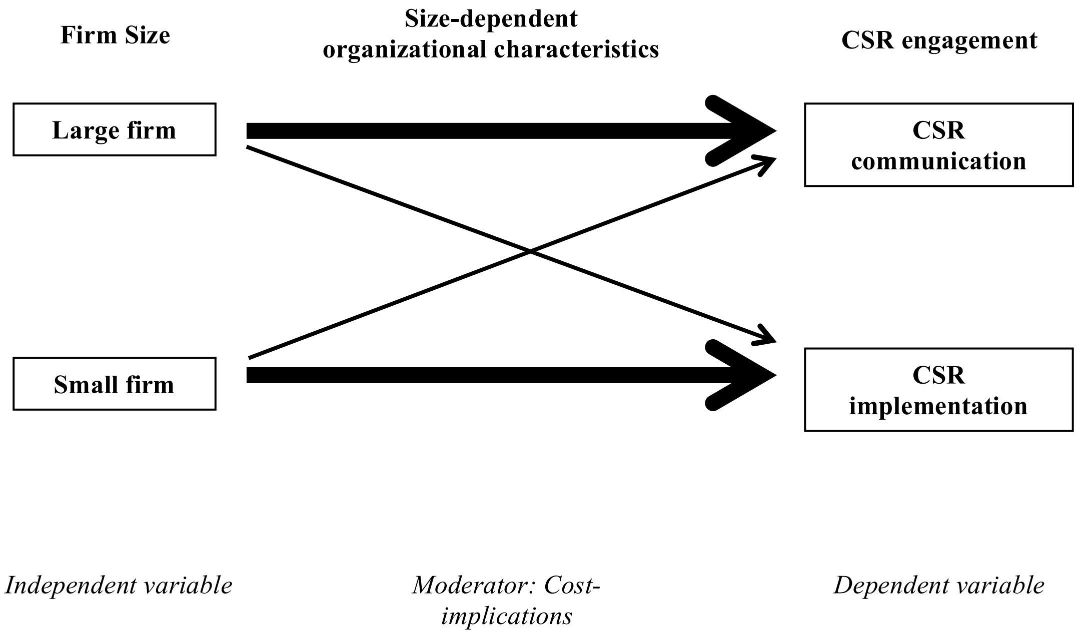

FIGURE 2

Relative Organizational Cost of Engagement in CSR (as relative share in total firm cost for CSR implementation and communication). Black: Relative cost of CSR communication; dotted: Relative organizational cost for CSR implementation.

Source: Own illustration